

Acknowledging social negative loops in inclusive business: an Egyptian case study of dairy sourcing

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Agri-chains have a key role to play to progress towards more sustainable future in accordance with the recently adopted Sustainable Development Goals (SDG). Societies are increasingly aware of the many services they provide, for example: food supplies, employment, creating landscapes, energy sources, etc. Agri-chains are evolving rapidly, linking diverse actors from the public and private sector, as well as civil society at multiple levels, from local to global. In this context, an increasing number of inclusive businesses (IB) are emerging, particularly in countries with high economic growth potential. According to the United Nations Development Programme, an IB is a: “*Commercially viable model that benefits low-income communities by including them in a company’s value chain on the demand side as clients and consumers, and/or on the supply side as producers, entrepreneurs or employees*” (UNDP, 2008). These initiatives are often promoted in association with Non-Profit Organizations (NPO) and claim to develop economic, as well as social values. Major agro-industries, including transnational groups, are flocking to emerging countries where demand trends offer promising prospects. In those ones, the majority of agricultural production still comes from family farming and rural poverty remains extremely common. Although large companies rely on global markets, they implement strategies to promote the use of local supplies in order to reduce their vulnerability to world prices instability. They promote large or mega-farms and/or try to link up with local family farms, often associated with NPOs. Both NPOs and companies aim to ensure that the quality and quantity of products collected meet industrial requirements. Although this type of project represents numerous opportunities for companies and NPOs, as well as the community hosting the project, it also involves risks for businesses and sustainability. These hybrid partnerships are a new phenomenon and their local benefit is still questionable, especially regarding the social dimension of sustainability (Bolwig, 2011). From a development research perspective, converting IBs into more powerful sustainable development tools involves a number of challenges, including identifying the links between the IB’s social impact and business activity (Porter *et al.*, 2011). Indeed these connections can be found along an agri-chain at macro-level (labels that allow businesses to access new global markets), meso-level (local authorities favour businesses that create local employment) and micro-level (job creation in a family stimulates a positive brand image among potential consumers). Our analysis focuses on the meso- and micro- levels.

Besides economic value creation for the promoting company, an IB model is designed to reach certain socio-economic impacts (direct positive impacts) on community members. It will also generate indirect impacts: positive or negative. These can generate in return feedback on the business performance (positive or negative) (Sundkvist *et al.*, 2005). We will focus our analysis on the loop constituted by socio-economic negative indirect impacts (SENII) generating in return negative feed-back on business activity at local level (Figure 1). Acknowledging this negative loop in the management strategy at the local level could both improve business performance as well as limit negative socio-economic impacts on the community hosting IB models. Ultimately, it encourages companies engaged in IB to adopt strategies that integrate better social concerns at meso and micro levels.

We examine the case study of an IB in Egypt. The potential for growth in the Egyptian dairy market is tremendous. A transnational company, specializing in dairy products, entered the market in 2006 and by 2016 was one of the leading companies in the national yogurt market. It owned two plants, a mega-farm (4000 dairy cows) and collected milk from dozens of large dairy farms on new reclaimed land. In 2011, the company initiated a milk collection project among small-scale farmers in association with an invest-

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ment fund and an international NPO. By promoting milk collection centres (MCC) in small villages within the framework of local public farmers' associations, the company sought to secure its supply of raw material while to contribute to rural community development. Producers had mixed crop-livestock production systems with limited production assets (< 2ha and one or two dairy animals). In 2016, 12 MCCs were operating mostly located in Middle Egypt. Since 2014, the project has been the subject of an *in itinere* "impact study" regarding socio-economic and technical aspects. Data were collected at farm, community and supply chain levels in a total of 5 villages over 3 years (with and without MCC). One of them is the case study village of Halabeya. It has been involved in the project longer than the other villages (one of the first MCC opened in 2011) and project promoters consider it to be one of the best business models. Data related to this village will mainly feed our analysis. Semi-directed interviews, focusing on socio-economic impacts of the MCC, were conducted every year on an original sample of 28 farmers from Halabeya, 9 milk independent collectors from the area and 2 MCCs (Halabeya and Nowera at a distance of 10km). Three participatory workshops were also organized between May and June 2016. From 9 to 15 key stakeholders related to dairy sector were gathered (farmers, veterinary, agricultural cooperative employees and managers, MCC staff members, milk trader and a feed trader) to identify project impacts on the local community. On site discussions and observations completed our data collection and were used in a qualitative approach. Inductive process led to negative loops identification. SENII, as a decreased business activity (profit creation, volume collected or customers...), decreased human capital, or credit access were investigated. Feed-back on business image, milk supply (quantity and quality) and services attractiveness were considered. Our results are presented as follows: first we describe the business model and its impact pathway as conceived by the project promoters; we provide a brief description of the impacts, as well as the main issues involved; then, we identify the negative social externalities falling out of the scope of project managers. The resulting negative feedbacks on business activity are then reviewed. On this basis, we suggest ways of integrating the negative loops into the management strategy.

In theory, the MCCs were supposed to collect cow milk from small farmers to satisfy company requirements (milk quantity and quality). In exchange for setting up the MCC and providing agricultural services (training, low cost feeds, etc.), a 5-year contract was established to ensure that the MCCs delivered exclusively to the company. NGO was in charge of project implementation. The company offered prices that were supposed to generate profits that the MCC could reinvest in agricultural services for local suppliers. For the company, the aim was to develop lasting commercial partnerships. The project's impact pathway targeted three levels of intervention: farms, supply chain and community. By providing funding to set up the MCC and quality expertise, promoting training for suppliers and staff members, and by relying on NGOs and the cooperative social networks, the company expected to improve milk quality and quantity, increase farmers' incomes, create jobs and empower women. MCC management was supposed to become autonomous. Several objectives have been achieved in Halabeya. Milk quality has improved according to both local farmers and project promoters. Milk prices improved locally and, thus, increased farmers' incomes. However, the income generated by milk remains marginal within the family's global economy. Jobs have been created within the MCC and some women have been employed. The project helped diversify local marketing channels and, thus, increased the resilience of small local producers. But in 2016, the MCC economic model was extremely precarious, with a gradual decline in the quantity of milk collected over the years.

During the impact assessment, we observed several negative loops that affected MCC business performances. Some women rented milk skimming devices to other women before MCC, playing a key role in the local social network. They decreased their business activity as the MCC collected milk among their customers. In return, these influent women conducted smear campaign against the MCC within the community. Similarly, some independent milk collectors' activities were threatened at the opening of the MCC (losing some of their suppliers and decreasing their profit to compete with MCC prices). In reaction, as they were not acknowledged in the MCC business model, they "defended" their activity by threatening in return MCC activities. Raising milk prices to challenge MCC prices and milk collection,

altering milk to spoil MCC collect, smear campaign against the project were some of their “violent” reactions. MCC had difficulty to keep a sufficient pool of farmers and milk adulteration resulted in dead loss weakening the precarious economical balance of cooperative. Moreover, these milk collectors played a key role in the agricultural activity by providing financial services to farmers. By selling to MCC, farmers were cut off of one of the main local financial services. This limited the farms’ capacity to invest, including in high quality feeds or high quality dairy animals, going against theoretical project impact pathway. Similarly, local feed retailers were threatened by punctual MCC feed sales to their suppliers. These key actors in the agricultural activity conducted smear campaign against MCC’s feed quality, deeply challenging the interest of farmers in these services and by this challenging the attractiveness of MCC model largely based on agricultural services promotion. The most virulent reactions happened in the early months of MCC activity.

If a manager had to consider the negative loop when making decisions, this would imply: looking for this loop across the entire community in a dynamic process. It appeared that the early stages of the business implementation are crucial. Thus preventing negative loops creation and strengthening appear to be a key factor to ensure success of IB. One prerequisite, during the early stage of business model conception could be the involvement of a wide range of community members to assess the potential negative loop and adjust the business model to the local context following shared value logic (Porter and Kramer, 2011). Promoting iterative management mechanisms appears also essential (Porter *et al.*, 2011). To properly acknowledge negative loops evolution, managers have to collect this information on a dynamic basis. One solution could be to identify key actors in the community who can collect and channel information on negative loops, from the community to local managers. Using the recent research of Banerjee and his colleague on the identification of individuals able to diffuse best information in a community could be interesting (Banerjee *et al.*, 2014). Are the individuals able to spread information in a community also the best ones to collect it? Exploring this question would be valuable future researchs.

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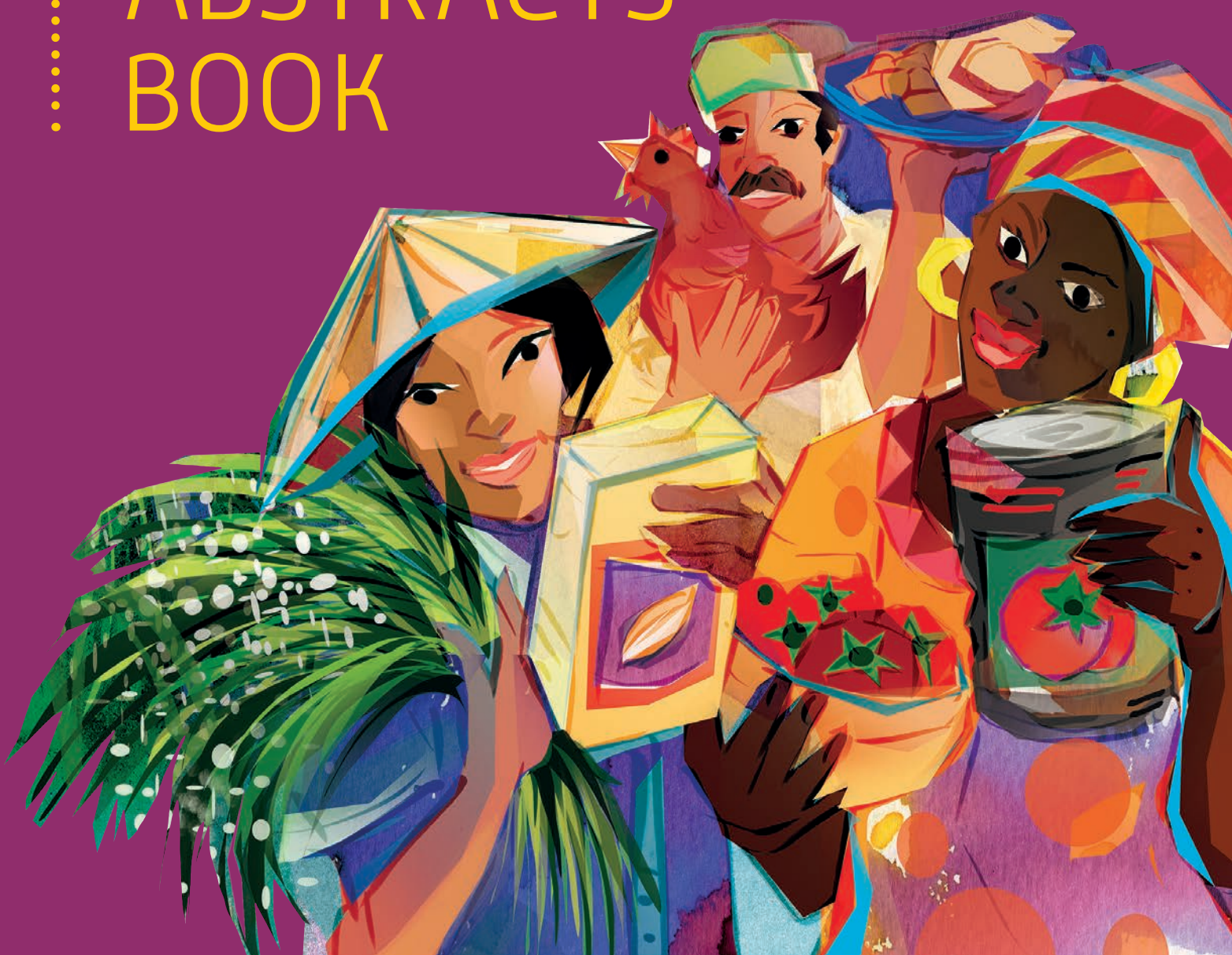
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ABSTRACTS BOOK



WELCOME ADDRESS



Welcome to AC&SD 2016

On behalf of the Scientific and Organizing Committees, it is a great pleasure to welcome you to the International Conference on Agri-chains and Sustainable Development (AC&SD 2016). This conference aspires to widen the debate about the role of agricultural value chains towards sustainable development. Year 2015 was a critical political and diplomatic milestone: the member states of the United Nations signed a new agenda for development, with the 17 Sustainable Development Goals (SDGs) placing sustainability at the core of international efforts. Development and academic actors are since then exploring new avenues for translating the SDGs into reality and implementing global and local frameworks and partnerships. Our conference aims at joining these efforts, with the consideration that agricultural value chains form spaces where local and global challenges to sustainability connect and within which local and global actors experiment and negotiate innovative solutions.

The scientific committee has assembled a very attractive program for AC&SD 2016 that seeks to cover and confront the diversity of realities behind agri-chains, from localized chains, embedded in specific places, to global value chains. In the parallel sessions, transformations of these agri-chains and their connections to sustainable development will be discussed by speakers from the academia, the civil society, the private sector and decision makers. This multi-stakeholder perspective will also be brought about in the plenary sessions. Here, world renowned keynotes and panelists to three high level round tables will discuss about the role and importance of evaluation, public and private institutions and innovations at different scales for transforming agri-chains towards sustainability transitions.

This edition gathers about 250 participants from 39 countries. AC&SD 2016 owes a lot to the scientific and organizing committees for preparing the program, and particularly to Brigitte Cabantous, Chantal Carrasco and Nathalie Curiallet for all the logistics, as well as to our support team of Alpha Visa that we warmly thank for their help.

We wish us all a fascinating, successful, inspiring and enjoyable AC&SD 2016 and we very much look forward to its result and to the strengthening of both a scientific community and a community of practice to implement the outcome!!

Estelle Biénabe, Patrick Caron and Flavia Fabiano,
Cirad Co-chairs AC&SD 2016

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